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Fletcher's tobacco tax increase proving its worth

By Brad Cowgill

When Gov. Ernie Fletcher included in his tax modernization plan an increase in cigarette taxes from 3 cents to 30 cents a pack, the state's political pundits responded gloomily, noting that cigarette bills had died on every legislative vine since 1990.

No tobacco-growing state would tolerate higher cigarette taxes, they said. If it somehow passed, it would provide an unreliable source of new revenue, hurt tobacco farmers and drive away cigarette buyers and retailers, all with no appreciable benefit for the public health.

It wasn't easy, but it passed. And now that our state has completed its first full fiscal year at the higher rates, Kentuckians can be glad that Fletcher, a physician, stuck to his guns.

With 149 million new dollars coming in each year from cigarettes, with cuts in other taxes providing a strong economic stimulant and with cigarette consumption by Kentuckians falling by 2 percent annually, it is clear that Fletcher's initiative is one of the most important policy achievements of our time.

Perhaps more remarkable than the cigarette increase itself is the way Fletcher advanced it: not by promising new projects and programs but by packaging it with cuts in individual and business taxes.

Against cries that the governor was wasting a "one-time opportunity" to use new cigarette revenue to bolster government spending, Fletcher invested every dollar of the new cigarette revenue back into Kentucky's economy.

He did that, mainly, by cutting individual income taxes, using a broad-based rate reduction, a low-income tax credit and a tuition tax credit for the families of Kentucky college students.

He invested cigarette dollars in the Kentucky economy also by cutting corporate income tax rates and throwing out our investment repellents: the corporate license tax and the intangible property tax.

It would be hard to deny that the governor's strategy has worked exceedingly well.

After six years in the doldrums, Kentucky jobs have recently matched and now surpassed all previous levels. The growth rate of retail sales has swelled to a 10-year high.

On the strength of a buoyant economy, General Fund tax receipts for the 2006 fiscal year rose by 9.6 percent -- that's 9.6 percent for two years in a row.

Public school funding has prospered under this formula. With the revenue from increased economic activity, as well as the savings from his efficiency initiatives, Fletcher made possible an on-time biennial budget universally hailed as "the best education budget since 1990." The numbers prove it.

That these changes actually lifted the burden on Kentucky families is beyond dispute. In a year of robust growth, Fletcher's income tax cuts have helped nearly every family in Kentucky and reduced income tax receipts by $136.2 million.

As for tobacco farmers, the cigarette tax increase has had no observable negative impact. Indeed, burley sales volume and gross receipts, which respond primarily to movements in the world market, increased in the last year. Fletcher renewed his allegiance to the distribution formula for the Master Settlement Agreement's tobacco revenues, encouraging diversification.

What we now know is this: Higher cigarette revenues are propelling the state's economy and its public schools, lifting a burden for nearly all Kentuckians and improving the health of our people. It is happening because Fletcher overcame the forces of inertia that have held us back.